

DRAFT FOR INTERNAL DISCUSSION

U.S. House of Representatives

**Agriculture Subcommittee on Department Operations, Oversight, Dairy, Nutrition  
and Forestry**

**Gil Gutknecht, (R-MN) Chairman**

Field Hearing

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Winona State University

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Mr. Chairman and members of the Committee, thank you for inviting me to join this distinguished group of dairy experts and industry leaders as you and your colleagues in Washington prepare to consider reauthorization of the 2002 Farm Bill. My name is John Vrieze. I am the President of the 400 member Wisconsin Dairy Business Association. I am also a third-generation dairy farmer from Emerald, Wisconsin where I milk nearly 3,000 cows.

I would like to accomplish these things during my brief testimony. First, I would like to introduce you to the Wisconsin Dairy Business Association. Secondly, I will offer a general reaction to the many flaws in our existing portfolio of federal dairy programs. I will conclude my presentation by sharing with you some recommendations as you begin to develop the next dairy title of the new farm bill.

The Wisconsin Dairy Business Association was created in 2000 to provide a louder voice for the dairy farm families, processing entities, cooperatives, agricultural lenders, and rural leaders who believe in growing and modernizing the Wisconsin Dairy Industry. As one of the co-founders of the organization, I am particularly proud of the great depth and breadth of our membership. As our name indicates, we are truly an organization that represents all aspects of the dairy business sector. Since inception, DBA has focused a tremendous amount of effort towards ensuring state legislation and regulations help drive competitiveness and include common sense approaches to positioning our dairy families to compete in the national and international market.

Our organization worked with the Wisconsin legislature to pass a series of key measures all of which are geared towards ensuring our state and region are

positioned to be competitive and viable well into the future. Specifically, we worked to pass a Dairy Investment Tax Credit program that has helped generate more than \$120 million in new investments made by dairy farmers – helping to ensure their operations are modern, efficient, and competitive. Recently, we worked with the legislature to adopt a landmark livestock-siting bill that provides a common-sense roadmap for producers and local officials looking to expand livestock operations. This legislation will no doubt be the model for other states as they struggle with inconsistent zoning requirements and the difficult task of balancing the demands of various land-use planners.

Because we recognize that the dairy industry is increasingly changing and becoming a greater national and international market, DBA has decided that it is time to become active contributors to the dialogue involving existing and new federal programs. We do not pretend to have all the answers, or believe we can solve all the problems facing the industry. However, we do believe we can offer a lot to the discussion and this hearing is one excellent way to begin the conversation.

Today's U.S. federal dairy policy is far from perfect. In fact, I would say only a handful of dairy producers here in this room actually completely understand how our milk is priced. Class one differentials, make-allowances, butter-powder tilts, and the list goes on may make sense to my good friend Dr. Bob Cropp and the hard working USDA employees and economists. However, I am pretty sure you would be hard pressed to find a dozen dairy producers who can explain the system to you. Not only is our current system cumbersome and complex, but the current composition and layers of policies actually prohibits us from properly responding to true market demands and signals.

The core component of our milk pricing system, the federal milk marketing order system, is a hodgepodge of outdated rules and regulations that have divided the major milk producing regions of our country for years. A four class pricing system, combined with various pricing differentials and complex blend price formula's have long outlived the original purpose of making sure Americans had access to enough bottled milk. The existing structure has stifled the innovation and market creativity we need to carry this industry forward. Given the makeup of the order system, milk is not being produced where it can be done most efficiently, and to make matters worse the classified pricing structure is preventing milk from flowing into products that have the highest value and greatest consumer demand.

The order system, with the various amendments which have been passed over the years have encouraged not true competition or innovation but rather bureaucratic paper pooling practices that serve no function in the market place. Making matters worse, and this is in no way a criticism to the hard working, professional and responsive USDA employees – but taxpayers and dairy

producers alike are being asked to support this structure through assessments, and in some cases increased prices on the shelf.

Rather than learn new gimmicks to outsmart the order system, our industry leaders, and those who you have asked to testify here this morning should be tackling the many vital issues facing our industry like decreased demand and an alarming increase in competition with other beverage choices like soft drinks. Our marketing experts and product developers need to explore new uses of milk products and we need a true national strategy to ensure we can compete on the world market.

I would also like to make a few comments about the existing dairy price support program. While I know I may not make new friends out west with these comments, I do believe many of my friends would agree that the existing price support program needs a major overhaul, if not complete elimination. Although originally designed to assist the industry during periods of extremely low-prices, this program has actually created a small segment of our industry that simply produces milk powder, regardless of true market needs, and sells that product to the federal government at a cost to all of us in this room. As I will explain a bit later in my presentation, milk price volatility does justify the need for a reasonable safety net. However, the existing purchase program does not succeed at strengthening our ability to compete and make a living – at a minimum the annual USDA expenditure to administer the program, purchase product and store it in inventory does not equate, in my opinion, to any meaningful level of support for the dairy producers here in the upper Midwest.

Next, I would like to take a few minutes to briefly lay-out some of my suggestions for future dairy policy initiatives that properly positions not only the upper Midwest – but also allows for my fellow dairymen around the country to make a decent living at milking cows.

While dairy industry leaders in other regions disagree on lots of specifics, I think we can all agree that it is time to reinvigorate rural economies by ensuring the best and brightest among us have opportunities to return to their home communities and carry on our legacy of hard work and success. I would argue that while our government should not and cannot afford to guarantee the cost of production, it certainly has a responsibility to make sure that existing programs in place are not operating as hurdles to our ability to remain profitable.

Along those lines, I suggest four specific priorities that must be addressed by Congress to help reenergize the dairy industry and thus our rural communities.

First, the government needs to eliminate the outdated and antiquated federal milk marketing order system. A new and simplified pricing structure needs to be phased in as a replacement for the many reasons I explained earlier.

Secondly, new and expanded risk management tools like permanent forward contracting must be expanded to all producers regardless if they ship their milk to proprietary or cooperative owned processing plants. Extreme volatility and extended periods of low prices call for this risk management tool to be made available to all dairy producers – similar to the tools made available to farmers who grow other commodities.

Third, Congress needs to phase out the existing dairy price support program and replace it with a new program that encourages the domestic production of milk protein concentrates and other dairy products that are in high demand. There is no reason why U.S. producers shouldn't be providing the raw ingredients for this product, rather than turning to increased importation to meet consumer demand.

Fourth, we need a sensible counter-cyclical program that treats all operations, regardless of size and location, fairly. While the existing MILC program has been a lifeline for many of the farm families in Wisconsin, we should not expect that level of assistance to keep us in business. In fact, increasing budget constraints and international trade pressures may not allow for it to continue. However, we do need a sensible program, and a reasonable level of support that is only triggered during extended periods of depressed prices.

Finally, Congress must make every effort to bring California into a new national program. We can no longer allow America's largest dairy producing state to be insulated with its own pricing structure. I know that there are plenty of producers in California who would like to explore the possibility of forming a new national pricing system, while also dealing with some of their unique concerns related to milk solids and issues surrounding the quota system. I think it is time to begin negotiations with California to see if we can come up with a program that allows both regions to prosper – I know it is a tall order, but we need to exhaust all options to see if we can move beyond the pitting of one region against another.

The suggestions I have just explained are meant to be guiding principles for you to consider. All of us in this room are keenly aware of how difficult it can be for you to balance the regional nature of our industry. However, it is my hope that this Committee will continue to work with not only producers from this region, but from all over the U.S. to craft a forward-thinking and modern dairy policy that benefits the entire industry.

Please know that my organization stands ready to assist you and your colleagues as you attempt to craft the next dairy title of the new farm bill. I will be happy to answer any questions you may have.